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NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of a Public Hearing under
Part IV of the National Energy Board Act
Respecting Tariffs and Tolls to be Charged

by

M ALBERTA NATURAL GAS COMPANY LTD.

Enroute

MAY 1980

NATIONAL ENERGY BOARD

OTTAWA, ONTARIO
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TO RECIPIENTS OF NATIONAL ENERGY BOARD REPORT ENTITLED
"CANADIAN ELECTRICAL UTILITIES ANALYSIS OF GENERATION AND
TRENDS 1978", ISSUED IN MAY OF 1980

ERRATA

Page 69, Column entitled "Consump./Cap.", bottom seven figures,
(kWh)

delete: "0620.9 and replace with: "10620.9	
1310.1	11310.1
1952.2	11952.2
1685.9	11685.9
2358.8	12358.8
2895.6	12895.6
3466.8"	13466.8".

Page 69, Footnote (1),

delete "1971\$/1964 ratio" and replace with
"1971\$/1961\$ ratio".



NATIONAL ENERGY BOARD

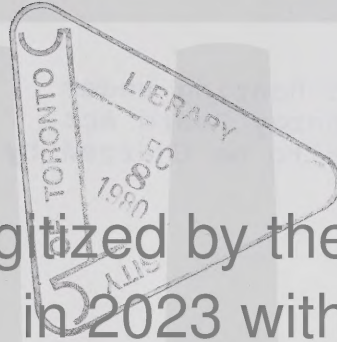

REASONS FOR DECISION

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(i)

NATIONAL ENERGY BOARD

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;

AND IN THE MATTER OF a public hearing
respecting tariffs and tolls charged by
Alberta Natural Gas Company Ltd. (hereinafter
referred to as "Alberta Natural"). File
No. 1562-A2-1

HEARD IN Ottawa on:

11, 12, 13, and 14 March 1980

BEFORE:

J.R. Hardie	Presiding Member
C.G. Edge	Member
R.B. Horner	Member

APPEARANCES:

Mr. J.R. Smith, Q.C.)	Alberta Natural Gas Company Ltd.
Mr. F.G. Homer)	Alberta and Southern Gas Co. Ltd.
Mr. John Hopwood, Q.C.)		Alberta Gas Trunk Line Limited
Mr. D. B. Macnamara)	Canadian Petroleum Association
Mr. John Lutes)	Foothills Pipe Lines (Yukon) Ltd.
Mr. E. G. Ringrose)	Pan-Alberta Gas Ltd.
Mr. Bruce Escoffery)	TransCanada PipeLines Limited
Mr. Andrew Mudryj)	Union Gas Limited
Mr. Gordon Lade)	Westcoast Transmission Company Limited
Me A. Bigu�)	For the Board
Mr. K. MacDonald)	

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- I Hearing Order No. RH-1-80
- II Amending Order No. AO-1-RH-1-80
- III Tariff Order No. TG-1-80

ABBREVIATIONS OF NAMES

"Alberta and Southern"	- Alberta and Southern Gas Co. Ltd.
"ANG", "Alberta Natural", or the "Company"	- Alberta Natural Gas Company Ltd.
"Columbia"	- Columbia Natural Gas Limited
"Inland"	- Inland Natural Gas Co. Ltd.
"The Act"	- the National Energy Board Act
"The Board" or "the NEB"	- the National Energy Board
"TransCanada"	- TransCanada PipeLines Limited
"Westcoast"	- Westcoast Transmission Company Limited

CHAPTER 1
THE HEARING

The Application

Alberta Natural Gas Company Ltd. ("Alberta Natural", "ANG" or "the Company") was incorporated in 1950 by a Special Act of the Parliament of Canada and was continued as a company by letters patent issued on 8 July 1971 under Part I of the Canada Corporations Act. Subsequently, on 14 May 1979, Alberta Natural was continued as a corporation under the Canada Business Corporations Act.

Alberta Natural owns and operates a large diameter pipeline system extending some 171 km from Coleman, Alberta to the international border between Canada and the United States at Kingsgate, British Columbia. The Company's pipeline system provides a natural gas transmission service for two shippers, Alberta and Southern Gas Co. Ltd. ("Alberta and Southern") and Westcoast Transmission Company Limited ("Westcoast") pursuant to a gas transportation contract dated 20 September 1960 (as subsequently amended).

By letter dated 28 June 1979, the National Energy Board ("the NEB" or "the Board") informed Alberta Natural of its intention to determine, through the public hearing process, the justness and reasonableness of Alberta Natural's tolls and tariffs. By Order RH-1-80, as amended by Order AO-1-RH-1-80, both of which appear in the Appendix of this Decision, the Board set down for hearing Alberta Natural's submission of 3 December 1979 pursuant to Part IV of the National Energy Board Act ("the Act"). The hearing commenced in Ottawa on 11 March and concluded on 14 March 1980.

Intervenors

Written interventions in respect of the submission were filed at the hearing on behalf of interested parties, including ANG's existing and proposed shippers, natural gas

gathering, transmission, and distribution companies, natural gas producers, and the Alberta Petroleum Marketing Commission.

The intervenors provided an expression of their views through the interventions themselves, through cross-examination of Alberta Natural's witnesses, or through final argument.

CHAPTER 2
INTRODUCTION

Alberta Natural has been operating its pipeline since 1961 as a transporter of gas for two shippers, namely Westcoast and Alberta and Southern. In addition to transporting gas from Coleman, Alberta for export at Kingsgate, British Columbia on the international boundary, ANG operates sales taps at various points in British Columbia for off-line deliveries to Columbia on behalf of Westcoast and Alberta and Southern and operates the East Kootenay meter station in southeastern B.C., where deliveries of Alberta and Southern gas are made to Inland.

ANG has operated its pipeline under a cost-of-service tariff in accordance with a contract with the shippers dated 20 September 1960. This contract, as amended, has been filed with the Board as the Company's tariff under Section 51(1) of the NEB Act. The gas transportation contract specifies that the shippers shall be billed for ANG's monthly cost of service, which shall include:

- (i) Operating and maintenance expenses which are chargeable to Accounts 610 to 889 of the Board's Gas Pipe Line Uniform Accounting Regulations;
- (ii) Depreciation based on units of throughput such that the capital cost of the pipeline, less net salvage values, will have been recovered at the expiry of the longest remaining export licence issued by the NEB;
- (iii) Amortization of amounts which are classified as amortizable under Account 304 of the Board's Gas Pipe Line Uniform Accounting Regulations and of all pre-operational costs of the Company;
- (iv) Taxes - both income and other; and

- (v) A return on the net investment base, which shall include the investment in gas plant in service, net of depreciation and contributions in aid of construction, plus an allowance for working capital.

From the above cost-of-service computation, ANG deducts an amount billed to Westcoast monthly for the operation of the sales taps in Southeastern British Columbia and an amount that is billed annually to Alberta and Southern for the operation of the East Kootenay meter station. The cost of service with respect to export gas is allocated to the shippers on the basis of the ratio that each shipper's "Daily Contract Quantity" bears to the combined "Daily Contract Quantity" of both shippers as specified in the gas transportation contract.

CHAPTER 3
ACCOUNTING MATTERS

During the hearing, a witness for Alberta Natural stated that not all costs included in the cost of service are recorded using the accrual method of accounting. Costs such as sales tax on compressor fuel, electric utilities service, and services rendered by Alberta and Southern are recorded on a cash basis.

The Board is of the opinion that this procedure for recording costs does not permit proper matching of revenues and expenses during the period in which they are incurred. Alberta Natural, therefore, is directed to record revenues and expenses using the accrual method of accounting for its pipeline operations.

CHAPTER 4RATE BASE

In response to the Board's letter dated 28 June 1979, Alberta Natural filed early in December 1979 a submission containing information pertaining to its tolls and tariff.

In the submission, ANG used a base year of 1 October 1978 to 30 September 1979 and a test year of 1 January 1980 to 31 December 1980, and requested that the Board approve, for ratemaking purposes, a continuation of the monthly cost-of-service-type toll that had been in existence since the pipeline first commenced operation.

As set forth in Chapter 9 of this Decision, under "The Regulation of the Tolls of Alberta Natural", the Board is authorizing a monthly cost-of-service toll for ANG and, therefore, finds that the test year rate base is not applicable. Under the authorized monthly cost-of-service toll, the rate base approved is that as at the end of the base year, namely, as at 30 September 1979, and includes Gas Plant in Service, Accumulated Depreciation, Contributions in Aid of Construction, and a Working Capital Allowance. As of the date when the new tolls arising out of this Decision become effective, based on the Regulation of the Tolls of Alberta Natural and Board Order TG-1-80 being issued as a result of the hearing, ANG shall calculate a new rate base. The adjustments to rate base for the period from 30 September 1979 to the date when new tolls become effective will require the Board's approval.

The Board finds the approved rate base (excluding working capital) as at 30 September 1979 to be:

Rate Base as at 30 September 1979

	<u>Transmission</u>	<u>East Kootenay Metering Facilities</u>	<u>Total</u>
Gas Plant in Service	\$54,368,285	\$348,958	\$54,717,243
Accumulated Depreciation	(32,318,896)	(110,248)	(32,429,144)
Contributions in Aid of Construction	<u>(103,765)</u>	<u>-</u>	<u>(103,765)</u>
Net Gas Plant in Service	<u>\$21,945,624</u>	<u>\$238,710</u>	<u>\$22,184,334</u>

Gas Plant in Service

The Board accepts the information filed as evidence in the Hearing, and the amount of \$54,717,243 for Gas Plant in Service is approved for inclusion in the rate base as at 30 September 1979.

Accumulated Depreciation

Alberta Natural included in rate base Accumulated Depreciation totalling \$32,429,144 based on a method of depreciation previously approved by the Board. The Board finds this amount to be acceptable for inclusion in the rate base as at 30 September 1979.

Working Capital(i) Cash Working Capital

Alberta Natural requested, as part of Working Capital, an allowance for Cash Working Capital of one-eighth of the operating and maintenance expense less the cost of gas used in operations for the previous twelve months. This is based on the concept that cash must be provided from the first day of a given month to cover cash operating expenses until receipt of cost-of-service toll payments on the twenty-fifth day of the following month. The Company stated that this was the method provided for in its gas transportation contract with the shippers and that it had followed the contractual provisions for calculating the Cash Working Capital Allowance consistently since the commencement of gas transportation service in December 1961. ANG testified that it had not done a cash time-lag study to determine the elapsed time between the provision of service and the payment for that service, as it considered Cash Working Capital to be a contract item as defined in its agreement with the shippers.

Not having done a time-lag study, ANG could not provide precise details of the actual time lag, but assumed that, on average, expenses were paid on or about the fifteenth

of the month during which service was provided. There would then be a time lag of 40 to 45 days until payment was received on or about the twenty-fifth of the following month.

Further questioning revealed that ANG does not make an accrual for such items as compressor fuel tax, the cost of utilities, or the cost of services provided by Alberta and Southern during the month such costs are incurred, but only records them when payment is made during the following month. By recording these costs in this manner, i.e., on a cash basis, billing and recovery of these costs from the shippers is delayed an additional month (See Chapter 2).

Based on the evidence, it is the opinion of the Board that the requirement of a 45-day Cash Working Capital Allowance has not been demonstrated by Alberta Natural. The Board finds an allowance of one month to be appropriate, and ANG is instructed to calculate its monthly Cash Working Capital Allowance commencing from the date new tolls come into effect by including in its rate base the total of the previous month's Operating and Maintenance Expense less the cost of gas used in operations.

(ii) Materials and Supplies

Based on information provided by ANG, Materials and Supplies on hand at 30 September 1979 for ANG's transmission system and for the East Kootenay metering facilities cost \$1,003,326 and \$7,302, respectively. These amounts are approved for inclusion in the Working Capital Allowance as part of the rate base as of that date.

In addition, subsequent to the coming into effect of the approved method for regulating ANG's tolls, the amount to be included in Working Capital Allowance each month will be the opening balance of the Materials and Supplies account.

ANG's monthly Materials and Supplies computer listings, covering a two-year period, are to be available for review by the Board.

(iii) Prepayments

Alberta Natural requested, as part of the Working Capital Allowance, an amount equal to the average of the previous twelve monthly balances in its Prepayments Account (NEB Account 160).

ANG's Prepayments Account consists entirely of prepaid insurance, and the Board authorizes such prepayments as part of a Working Capital Allowance.

However, because Alberta Natural's rate base is to be calculated monthly, the amount to be included in Working Capital is to be the opening balance of the Prepayments Account.

Deferred Income Taxes

On 1 January 1973, Alberta Natural commenced collecting from the shippers income taxes calculated on a normalized basis. Under the method employed, the shippers were given credit in the cost of service, equivalent to two-thirds of the rate of return on rate base, for income taxes collected by ANG prior to the deemed payment of such taxes.

It is the opinion of the Board that the shippers should receive full credit for such advance payments. Alberta Natural shall, therefore, commencing from the date new tolls arising out of these Reasons for Decision become effective, deduct the previous month's closing balance of the deferred income taxes account related to pipeline operations from the monthly rate base prior to calculating the allowed return.

In addition, the balance of the deferred income taxes shall be reduced each month by the amount of the income taxes calculated using the method described in Chapter 6 of these Reasons for Decision. Alberta Natural shall apply such taxes against the deferred income taxes until such time as the balance in that account is reduced to zero.

CHAPTER 5
COST OF SERVICE

In its submission, Alberta Natural provided information for a test year commencing 1 January 1980. As previously indicated in Chapter 4, Rate Base, the Board, having decided to implement a monthly cost of service type toll, finds that the dollar amount of the cost of service for a test year is not required.

Therefore, to conform with the "The Regulation of the Tolls and Tariff of Alberta Natural", these Reasons for Decision will indicate first, for the year beginning 1 January 1980, the authorized budget for wages, salaries and benefits included in Operating and Maintenance Expense and for Other Operating and Maintenance Expense and, second, the items which may or may not be included in the cost of service and the methods or criteria for determining the dollar value to be included.

Operating and Maintenance Expense

The Board accepts ANG's test year forecast of \$5,141,421 for Operating and Maintenance Expense, excluding the cost of gas used in operations, consisting of \$865,188 for wages, salaries, and benefits and \$4,276,233 for Other Operating and Maintenance Expenses as reasonable.

The approved budget for the period from 1 July 1980 to 31 December 1980 shall be these amounts less the amounts actually incurred by Alberta Natural with respect to these items during the period commencing on 1 January 1980 and ending on 30 June 1980.

(i) Wages, Salaries and Benefits

Alberta Natural, in its estimate of wages and salaries, provided for an increase of 10 percent effective 1 January 1980. It stated that such an increase had been granted to its field employees and provided evidence to show that similar increases had been granted within the oil and gas

industry. ANG also pointed out that its salary adjustment needed to reflect the rapid increase in salaries taking place in the Calgary area in Alberta. There were no plans by Alberta Natural to introduce new employee benefits for the test year.

Taking the above considerations into account, the Board finds ANG's estimate for wages, salaries, and benefits for the test year to be a reasonable estimate and is approved for inclusion in determining the budget for the period 1 July to 31 December 1980.

(ii) Other Operating and Maintenance Expense

The Alberta and Southern Building

Evidence presented by Alberta Natural during the hearing indicated that its head office building in Calgary, while named the Alberta and Southern Building, is owned and operated by Alberta Natural.

Although it owns the building, ANG's only occupancy is through the space rented to Alberta and Southern. Evidence indicated the rental rates which ANG charges Alberta and Southern and the other building tenants were competitive with the going cost for office space in Calgary at the time leases were renewed.

The evidence also showed that, up to the last day of the base year, the Alberta and Southern Building had been included in the rate base of the ANG transmission system where it earned a return. In addition any net gain or loss on the operation of the building was included in the cost of service and was billed to the shippers.

As of 30 September 1979, the Alberta and Southern Building has been removed from the Transmission System rate base. The only cost now included in the cost of service is Alberta Natural's share of the office rent, which is a part of the monthly allocation of common administrative expenses charged to ANG by Alberta and Southern.

Having reviewed the evidence, the Board is satisfied with Alberta Natural's present procedures for owning and

operating the Alberta and Southern Building and the allocation method for charging the relative share of costs to its pipeline cost of service.

Allocation of Administrative and General Expense

Alberta Natural adduced evidence which indicated that certain administrative expenses, such as salaries, office rent, printing and stationery charges, and computer services, are common to both ANG and Alberta and Southern. Initially these costs are paid for and charged to Alberta and Southern. Then at the end of each month, they are allocated to the two companies on the basis of labour hours devoted to the various operations of each company.

In addition to the above allocation, Alberta Natural acquires certain administrative and general expenses on its own account, which it allocates to its pipeline and its other operations. The allocation of these expenses is made on the basis of the net investment in each activity.

In the Board's view, the above allocation procedures are reasonable and are, therefore, approved.

(iii) Summary of Other Operating and Maintenance Expenses

Alberta Natural's forecast of Other Operating and Maintenance Expenses of \$4,276,233 is approved for inclusion in determining the budget for the period 1 July to 31 December 1980. Alberta Natural may include in its cost of service the actual costs incurred for these categories of expense up to the amounts shown in the approved budget. Any amount in excess of this annual total should be deferred for disposition as described under the Regulation of the Tolls and Tariffs of Alberta Natural.

Operation Gas

The cost of gas used by ANG does not appear in the cost of service since the shippers are required by contract to furnish gas for this purpose. Nevertheless, ANG's effort to minimize this item is of major concern to the gas shippers.

ANG provided the "unaccounted for gas" volumes for the years 1975 to 1979. The percentage of "unaccounted for gas" volumes to the volume of gas transported varied from 0.11 percent in 1975 to 0.32 percent in 1979, representing an average over the past five years of 0.25 percent. The Board is concerned about the increase in losses during the last two years and, therefore, requires ANG to monitor such increases closely.

The Board has also looked into the matter of compressor fuel efficiency and is satisfied that ANG's compressor fuel volumes are within an acceptable operating standard.

To enable the Board to monitor the trend for "unaccounted for gas" and compressor fuel, Alberta Natural is required to periodically provide information on the actual monthly amounts of "operation gas", in a format showing, separately, the items making up the volumes reported.

Depreciation

Alberta Natural requested the continuation of a depreciation rate on all its pipeline assets, with the exception of the East Kootenay metering facilities, based on a volume of throughput method. The rate is calculated on a semi-annual basis, by dividing the total annual volumes of gas authorized for export by the total remaining volumes of gas authorized for export. The Board, having previously approved the method for calculating the depreciation rate, and having considered the evidence adduced at the hearing, sees, in general, no reason to vary it at this time. However, due to the method of regulation approved for Alberta Natural by the Board, the rate of depreciation beginning 1 July 1980 is to be calculated monthly.

Alberta Natural is depreciating the East Kootenay metering facilities over a period of fifteen years on a

"straight-line" basis. Fifteen years is the contract life of the sales agreement between Inland and Alberta and Southern, on whose behalf ANG makes deliveries. This method of depreciation for the East Kootenay facilities appears reasonable to the Board and is, therefore, approved.

Municipal and Other Taxes

ANG requested approval in its cost of service for the year beginning 1 January 1980 of "Municipal and Other Taxes" as follows:

Municipal Taxes	\$1,132,970
Corporation Capital Taxes	
British Columbia	<u>\$ 36,442</u>
Total	<u>\$1,169,412</u>

Because of the nature of the cost-of-service toll, Alberta Natural may include the actual cost of "Municipal and Other Taxes", in the absence of unusual circumstances. Monthly amounts for such taxes should be based on one-twelfth of the estimated taxes for the year, but the annual total of the monthly amounts shall not exceed the actual taxes for the period to which it applies.

CHAPTER 6
INCOME TAXES

Before 1 January 1973, Alberta Natural did not pay any income taxes or include any estimate of income taxes in its cost of service. At that time, the cost of service of the pipeline was a charge to each shipper and constituted part of the delivered cost of the gas exported by the shipper. However, recognizing that Westcoast had a shorter period remaining until the expiry of its permit to remove gas from the Province of Alberta than did Alberta and Southern, and in an effort to ensure that Westcoast would have satisfied all income tax obligations prior to the termination of its licence, ANG began to collect taxes under a normalized method on 1 January 1973. The method agreed to by the shippers allowed Alberta Natural to commence billing the shippers for both Current and Prior Period Normalized Income Taxes. In all of the calculations required in determining the income taxes to be billed to shippers, the Company viewed the transmission operations on a "stand-alone" basis. As a result of viewing the transmission operations in this manner, and upon comparing the taxes collected from each shipper with the taxes deemed paid in respect of each shipper, it became evident that, subsequent to September 1978, ANG was not collecting sufficient taxes from Alberta and Southern to match the deemed income tax payments related to Alberta and Southern shipments. To compensate for this situation, ANG commenced billing Alberta and Southern for "Excess of Income Taxes Attributable to Shipper Over Remaining Balance of Shipper's Accumulated Income Taxes" in addition to Current and Prior Period Normalized Income Taxes. In its submission, ANG proposed to maintain its existing method for the collection of income taxes.

The Board, in reviewing this existing method of collection of income taxes, gave consideration to certain factors.

First, in order to collect an amount of income taxes under its existing method equal to its deemed taxes paid, ANG is required to collect "excess taxes" from Alberta and Southern as described above. Thus, in respect of the shipments by Alberta and Southern, the taxes billed would be approximately equal to taxes calculated on a "flow-through" basis in the test year. The above would continue until such time as the total accumulated payments by Alberta and Southern in respect of both the amortization of prior-period deferred income taxes and the "excess taxes" became sufficient to meet the total accumulated income taxes due on Alberta and Southern's share of prior-period normalized income (\$10,691,606).

Second, the pricing mechanism established by the Petroleum Administration Act with the flow-back to the Alberta Petroleum Marketing Commission of the export price less the transmission costs has obviated the necessity to allocate income taxes between Westcoast and Alberta and Southern, since prices at the international boundary no longer represent the field price plus transportation to the boundary. Under these circumstances, the Board considers that it is no longer necessary to continue the rather complicated procedures now being utilized by ANG to calculate income taxes.

Since Alberta Natural's pipeline operations have already passed the cross-over point where flow-through taxes exceed normalized taxes, the Board finds that the Company should calculate the income taxes to be included in the cost of service on a flow-through basis. In order to determine the income taxes to be collected under a flow-through method, the Board considers it appropriate, in the particular circumstances of this Company at this time, that the Company continue to treat transmission operations on a stand-alone basis. However, when calculating income taxes for inclusion in the cost of service, a share of common items of income and expense will no longer be allowed to be included in the determination of income

taxes for transmission operations. Under the flow-through basis to be used by the Company, the Board directs that income taxes shall be calculated by:

- (1) multiplying the rate base by the ratio that common equity bears to total capitalization and by the cost rate of common equity as reflected in the capital structure used by the Board in determining return on rate base in these proceedings;
- (2) adding and deducting timing differences attributable solely to transmission operations to the product determined above; and
- (3) multiplying the resultant amount by a tax factor determined by the formula, $\frac{\text{tax rate}}{100 - \text{tax rate}}$.

In addition, the Board considers that separate calculations of income taxes to be collected from each shipper are not required. Income taxes for the East Kootenay metering facilities will be based on the return on equity applicable to those facilities. The balance of the income taxes will be allocated between shippers on the basis of their respective Daily Contract Quantities, as is the case with other items of cost of service.

The Board directs ANG to calculate the income taxes to be collected using the flow-through method outlined above, commencing from the date that these tolls come into effect. However, since in the past the Company has been reimbursed for taxes on a normalized basis, no taxes are to be included in the cost of service billed to the shippers until the accumulated calculation of taxes on a flow-through basis from the time these tolls come into effect equals the balance of the deferred taxes which have been billed with respect to the pipeline operations up to 30 June 1980.

CHAPTER 7
RATE OF RETURN

Alberta Natural applied for a rate of return on rate base of 12.5 percent for the test year 1980. This is compared with the 9.5 percent rate previously negotiated with its shippers, which has been in effect since 1 January 1975. The higher rate was developed on the basis of the imputed capital structure set forth below:

	Amount (\$000's)	Ratio (%)	Cost Rate (%)	Cost Component (%)
Long Term Debt	21,575	18.90	8.51	1.61
Imputed Debt	46,933	41.10	11.50	4.73
Common Equity	45,672	40.00	15.40	6.16
Total	<u>114,180</u>	<u>100.00</u>		<u>12.50</u>

An expert witness for ANG, Mr. R.E. Evans, testified that the Company's actual permanent test-year capitalization, exclusive of deferred taxes that arose essentially from its non-gas-transmission activities, reflected the following proportions of debt and common equity:

	Amount (\$000's)	Ratio (%)
Long Term Debt	21,575	32.10
Common Equity	<u>45,672</u>	<u>67.90</u>
Total	<u>67,247</u>	<u>100.00</u>

Mr. Evans also noted that the ratio of common equity to total permanent capital exclusive of deferred taxes was significantly higher for ANG than for other Canadian gas pipelines, e.g., TransCanada and Westcoast, and was more typical of the equity ratios of the higher business risk Canadian industrials cited by Mr. Evans during the course of his evidence.

While, in general, Mr. Evans did not consider capital structure management to be an appropriate function of regulation, he did express the opinion that if a capital structure contains an equity component lying outside the range

of what may reasonably be viewed as efficient, it becomes a proper function of regulation to ensure that rate payers are not penalized by such inefficiency.

Mr. Evans then proposed the imputation of an amount of debt that would reduce ANG's equity ratio for rate-making purposes to 40 percent, a level that was, in his view, commensurate with the business risks confronting ANG's gas transmission operations.

The Board is of the view that a comparative analysis of the business risks confronting ANG, TransCanada, and Westcoast, as put forward by both of the Applicant's expert witnesses, provides a useful approach in determining an equity ratio in the capital structure for rate-making purposes that is more appropriate to the Company's current circumstances than the 67.9 percent level given above.

The Board considers the 40 percent equity ratio suggested by the Company to be the upper limit of an acceptable range. In the circumstances of this case, the Board accepts the 40 percent ratio suggested by ANG.

Cost of Long-Term Debt

ANG calculated the cost rate for its long-term debt to be 8.51 percent. This was based, in part, on the gain expected to be realized on the purchase of Series C First Mortgage Pipe Line Bonds to meet sinking fund requirements. This gain in turn was based upon an assumed yield to maturity of 10 percent.

Cross-examination revealed that a more likely yield basis for this gain calculation was 11.75 percent, which produced a cost rate of 8.16 percent. Accordingly, the Board finds 8.16 percent to be the rate applicable to long term debt.

Cost of Imputed Debt

Initially, the Company estimated the rate which would be applicable to imputed debt to be 11.25 percent. Before the

commencement of the Hearing, the Company revised its estimate to 11.50 percent. In the course of their prepared evidence and cross-examination, the Company's two expert witnesses suggested ranges of rates based primarily on the timing of the issuance of such debt. In view of the uncertainty in the capital markets and having regard to all of the factors relating to this imputed debt, the Board accepts ANG's rate of 11.50 percent.

Cost of Common Equity

The cost rate or rate of return applicable to common equity is not susceptible to the more objective methods by which the cost of borrowed funds may be ascertained. Rather, it may be estimated only by indirect means normally subject to the exercise of considerable judgement.

The evidence in the ANG case demonstrated that the Company had the low business risk characteristics of a regulated firm while exhibiting the higher equity ratio/lower financial risk normally associated with unregulated firms. Accordingly, ANG restored itself to a more appropriate situation in terms of financial risk through the imputation of a 40 percent equity ratio.

Both of the Company's expert witnesses sought to establish appropriate rates of return on common equity through the discounted cash flow or DCF technique. While the Board is of the view that this method provides an appropriate check on the results of other measures of the cost of common equity, it is subject to a number of limitations such as stock price fluctuations and the presence of unregulated business operations in the regulated corporation. Accordingly, the Board gives weight to the comparable-earnings-test method of measuring the cost of common equity. One of ANG's witnesses employed this technique and, based principally on the evidence submitted in this connection, the Board finds that a rate of

14.25 percent is appropriate to the common equity ratio of 40 percent imputed to the Company.

Capital Structure

In order to achieve the 40 percent equity ratio which ANG felt appropriate to its gas transmission operations, the Company imputed additional debt of \$46,933,000. The Board accepts a 40 percent equity ratio as appropriate to ANG's current situation. However, the Board is of the view that a more appropriate means of achieving this ratio for ratemaking purposes is through a reduction of ANG's equity capital to an amount equal to 40 percent of the company's actual permanent test year capitalization exclusive of deferred income taxes. Using this method, the Board has reduced the amount of equity in the capital structure to \$26,899,000 and the imputed debt to \$18,773,000. Accordingly, the Board has decided that the rate of return that the Company will be allowed to apply to its rate base will be calculated on the basis of the following capital structure and individually allowed cost rates.

	Amount (\$000's)	Ratio (%)	Cost Rate (%)	Cost Component (%)
Long Term Debt	21,575	32.08	8.16	2.62
Imputed Debt	18,773	27.92	11.50	3.21
Common Equity	26,899	40.00	14.25	5.70
Total	<u>67,247</u>	<u>100.00</u>		<u>11.53</u>

Return on Rate Base

Considering all of the above factors, the Board, as a matter of judgement, finds that the return after taxes on rate base should be 11.5 percent.

CHAPTER 8

ALLOCATION OF THE COST OF SERVICE

In its submission, Alberta Natural requested approval of the method of allocating the cost of service between Westcoast and Alberta and Southern as defined in its Gas Transportation Contract. Under the terms of that contract, ANG allocates the cost of service between the shippers using the same ratio as each shipper's "Daily Contract Quantity" bears to the combined "Daily Contract Quantity" of both shippers.

In addition to this basic charge, ANG bills each shipper for the owning and operating costs of the East Kootenay metering facilities and the sales taps in Southeastern British Columbia, which were installed at the shippers' request. After receiving the billing, Westcoast and Alberta and Southern then allocate the transmission charge between export and domestic sales.

It is the decision of the Board that Alberta Natural shall continue to operate on a monthly cost-of-service toll. Commencing 1 July 1980, the method of allocating the cost of service for each month shall be:

- (i) the cost of service applicable to the East Kootenay metering facilities and the sales taps in Southeastern British Columbia shall be allocated and charged to Alberta and Southern and to Westcoast in accordance with the existing arrangements with those shippers, and
- (ii) the balance of the cost of service will be allocated to Alberta and Southern and to Westcoast by the fraction whose numerator is the respective shipper's Daily Contract Quantity and whose denominator is the sum of the Daily Contract Quantities of both shippers."

The Board has recommended that the Petroleum Administration Act prescribed prices be amended to conform with this Decision. The consequent P.A.A. orders will be made by the Board when the prescribed prices have been approved.

CHAPTER 9THE REGULATION OF THE TOLLS AND TARIFF OF ALBERTA NATURAL

Alberta Natural, in its submission, requested the Board to allow it to remain on a monthly cost-of-service toll and suggested a method by which such tolls could be regulated.

After reviewing Alberta Natural's proposed method of regulation, it appears to the Board that the proposal would require the Board to vary certain costs after they had been incurred and recovered in the tolls charged by the Company. This appears to the Board to be retroactive ratemaking, which is not authorized under Part IV of the N.E.B. Act.

Evidence adduced during the hearing leads the Board to conclude that the toll to be charged by Alberta Natural should be a cost-of-service type with prospective control over the various costs included in the toll.

The objective of the Board's approach to the regulation of Alberta Natural's tolls is to determine, before costs are incurred, the methods and parameters for computing the tolls and to approve annual budgets of operating and maintenance expenses that provide a limit on the actual operating and maintenance costs which can be automatically included in the cost of service.

The cost-of-service form of toll envisaged by the Board is one under which the regulator allows the utility to adjust its charges on a monthly basis as costs incurred change in accordance with rules previously approved by the regulator. The rules specify the items of costs that can be recovered in the toll, the accounting principles to be followed in determining the tolls, the rate of return allowed on the investment in rate base, the depreciation rates, and other parameters necessary for determining the cost of service.

The approach to be used is as follows:

Audit

1. The Board will audit Alberta Natural's calculations of rate base, cost of service, and tolls at least once each year. The Board's audit reports will be public documents available for examination by interested parties.

Interested Parties

2. Westcoast Transmission Company Limited, Alberta and Southern Gas Company Ltd., The Canadian Petroleum Association, the Alberta Petroleum Marketing Commission, and any person who notifies Alberta Natural and the Board that he wishes to be registered as an interested person in Alberta Natural's tolls and tariff, and is accepted by the Board as such, will be recognized as interested parties in all matters related to tolls subsequent to the hearing called by the Board's Orders No. RH-1-80 and No. AO-1-RH-1-80.

Rate Base

3. Beginning with the first month the approved method is applicable and as of the first of each succeeding month, a rate base shall be calculated by the Company using the principles set out by the Board in these Reasons for Decision and in Board Order No. TG-1-80. This shall include the rate base at 30 September 1979 as determined by the Board in accordance with these Reasons for Decision plus subsequent capital expenditures on construction approved by the Board under Part III of the N.E.B. Act which have been recorded in the plant accounts set out in Schedule "IV" to the N.E.B. Gas Pipe Line Uniform Accounting Regulations, and appropriate adjustments to other rate base items including accumulated depreciation, contributions in aid of construction, and the working capital allowance. The balance of deferred income taxes relating to the Company's pipeline operations calculated on the basis approved by the Board are to be deducted from rate base. The rate base for toll purposes is to be the opening balance for the month.

4. Any new type of item proposed for inclusion in the subsequent monthly rate base determinations will require prior Board approval (and for items deemed by the Board to be significant will be subject to review by interested parties).
5. Alberta Natural's adjustment to its rate base from 30 September 1979 to the start of new tolls arising from the Decision in these proceedings is to be filed with the Board on or before 31 August 1980 for the approval of the Board.

Cost of Service

6. The following represents costs that the Board is prepared to allow to be included in the cost of service automatically, provided the principles or methods of computation have been previously approved by the Board, or where the costs are largely outside the control of the company:
 - operating and maintenance expenses up to the budget amounts previously approved by the Board for
 - (a) salaries, wages and benefits; and
 - (b) other expenses
 - municipal taxes in the absence of unusual circumstances;
 - depreciation;
 - amortization (after receiving Board authorization);
 - income taxes, employing the "flow-through" method prescribed by the Board, and using the method of calculation set out in Chapter 6 of the Board's Reasons for Decision, all subject to the limitations contained in the same chapter; and
 - return on rate base as determined by the Board in Chapter 7 of the Board's Reasons for Decision.
7. In the event that Alberta Natural's operating and maintenance expenses for salaries, wages, and benefits, or other operating and maintenance expenses, exceed in any

year the budget approved by the Board, such over-expenditures are to be charged to a deferral account set up for that purpose. The amounts are to be charged to Account 179, Other Deferred Debits, of the NEB Gas Pipe Line Uniform Accounting Regulations and shall include a monthly carrying charge on the opening balance of one-twelfth the allowed rate of return on rate base.

8. The following represent items for which interested parties will have the right to request a review and which require the approval of the Board:
 - the annual budget of operating and maintenance expense;
 - disposition of deferred costs arising from overruns of salaries, wages and benefits in operating and maintenance expenses and of other operating and maintenance expenses
 - changes in the bases of allocating Alberta Natural's administrative and general expenses to its pipeline operations and changes in any other bases of allocating any other costs to Alberta Natural's pipeline operations.
9. Unless it otherwise advises, it is the intention of the Board to hold a public hearing on any application to change the principles or methods of determining costs in item 6 above.
10. Notwithstanding any of the foregoing, Alberta Natural may automatically include in the cost of service any unusual costs resulting from emergency actions, e.g., repairing a line break. The Board should be notified immediately of such costs and will rule whether the amounts recovered from the shippers in respect of such costs should be recorded as revenue or deferred pending an investigation by the Board.
11. In respect of any major unusual costs not provided for in item 10 above, Alberta Natural is required to seek a prior ruling of the Board as to whether such costs can be

automatically included in the cost of service or should be deferred.

12. Where Alberta Natural or interested parties request a review of certain costs or have complaints, apart from the matters identified in item 6 above, the Board intends to deal with them by means of written submission unless it otherwise advises.

Information Requirements

13. Each month, Alberta Natural shall file with the Board and, if requested by any interested party, serve upon any such party, information in a form satisfactory to the Board on:
 - (1) the derivation of the rate base;
 - (2) components of the cost of service; and
 - (3) allocation of the cost of service to
 - (a) Westcoast and
 - (b) Alberta and Southern.

Written comments should be provided to give insight into significant matters.

14. On or before 30 September of each year, Alberta Natural shall submit to the Board and serve upon interested parties its detailed budgets for the ensuing calendar year for salaries, wages and benefits included in operating and maintenance expenses and also for other operating and maintenance expenses. Such budgets shall, as a minimum requirement, contain information in as much detail as Alberta Natural's "Submission in respect of its tolls and tariffs" filed as Exhibit 2 as supplemented by Exhibit 7 during the public hearing. Interested parties, if they wish to do so, may make written representations to the Board on or before 31 October with respect to items included in the budget. Such written representations shall be served concurrently upon Alberta Natural, who may reply to them on or before 30 November of the same year.

Subsequently, the Board will rule on the authorized budgets for operating and maintenance expenses and advise the interested parties.

Clarification of the Method for Regulating the Tolls

15. Where Alberta Natural or any interested party requires clarification of the method of regulation in relation to any situation arising in any month during the term of Order No. TG-1-80, a formal request should be made to the Board with a copy being served on interested parties.

CHAPTER 10
DISPOSITION

As indicated in Chapter 9 of these Reasons for Decision, the Board will provide for the tolls to be charged by Alberta Natural by an order under Section 50 of the NEB Act. The tolls will be of the cost-of-service type calculated and allocated on the basis of a monthly cost of service determined in accordance with these Reasons for Decision. The method for regulating the cost of service tolls shall be that specified in Schedule A to Order No. TG-1-80, which is set out as Appendix III to these Reasons for Decision.

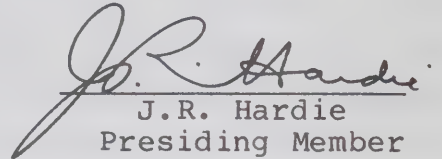
In the Board's view the tolls determined in the manner described in these Reasons for Decision and regulated in the manner provided for in Board Order No. TG-1-80 will result in tolls being charged by Alberta Natural which are just and reasonable.

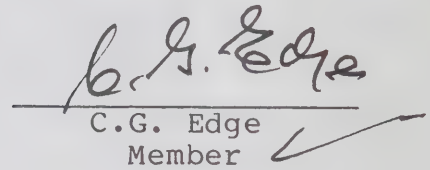
The new form of tolls and the changes in the accounting procedures for Alberta Natural shall take effect on the first day of July 1980.

The Gas Transportation Contract dated 20 September 1960 between Alberta Natural, Westcoast and Alberta and Southern, and the various amendments to it, have been filed with the Board as Alberta Natural's tariff, pursuant to subsection 51(1) of the Act. In view of the Board's findings and disposition, as set forth herein, Alberta Natural shall amend its tariff in conformity with Order No. TG-1-80 and these Reasons for Decision.

* * *

The foregoing chapters together with Order No. TG-1-80 constitute our Reasons for Decision and our Decision on the submission by Alberta Natural Gas Company Ltd. under Part IV of the National Energy Board Act.


J.R. Hardie
Presiding Member


C.G. Edge
Member ✓


R.B. Horner
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-1-80

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;

AND IN THE MATTER OF a public hearing
respecting tariffs and tolls charged by
Alberta Natural Gas Company Ltd. (hereinafter
referred to as "Alberta Natural").
File No. 1562-A2-1

B E F O R E the Board on Thursday, the 17th day of January, 1980

WHEREAS the National Energy Board considers it advisable
to conduct a public hearing, pursuant to Part IV of the National
Energy Board Act to ascertain whether the tolls charged by
Alberta Natural are just and reasonable and that Alberta Natural
does not make any unjust discrimination in tolls, service or
facilities against any person or locality.

AND WHEREAS Alberta Natural has filed a submission
requested by the National Energy Board respecting tolls and
tariffs,

IT IS ORDERED THAT:

1. A public hearing shall be held in the Hearing Room of
the National Energy Board, Trebla Building, 473 Albert Street, in
the City of Ottawa, in the Province of Ontario, commencing on
Tuesday, the 26th day of February 1980 at 9:30 a.m. local time
for the purpose of hearing evidence respecting tariffs and tolls
charged by Alberta Natural. Such proceedings will be conducted
in either of the two official languages, and simultaneous
interpretation will be provided should a party to the proceedings
request such facilities in his intervention.

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2. Alberta Natural shall, forthwith serve a true copy of its submission, if not already served, all additional information relating to the submission filed with the Board, and a true copy of this Order upon all of its shippers and customers and upon the Attorneys-General of the Provinces of British Columbia and Alberta, The Canadian Gas Association, The Canadian Petroleum Association, The Independent Petroleum Association of Canada, and, as soon as may be possible, upon those persons who have intervened pursuant to paragraph 4 hereof.

3. Notice of the said hearing in the form prescribed by the Board as set forth in the Notice attached to and forming part of this Order shall be published on or before the 25th day of January, 1980, in one issue each of the "Colonist" in the City of Victoria, the "Sun" in the City of Vancouver, both in the Province of British Columbia, the "Herald" in the City of Calgary and the "Journal" in the City of Edmonton, both in the Province of Alberta, the "Globe and Mail" and the "Financial Post" in the City of Toronto, the "Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario; and as soon as possible in the Canada Gazette.

4. Any respondent or intervenor intending to oppose or intervene in the said hearing shall, on or before the 18th day of February, 1980 file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official

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- 3 -

languages, containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the submission and/or additional information filed by Alberta Natural and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 18th day of February, 1980, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon Alberta Natural, and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, The Canadian Gas Association, The Canadian Petroleum Association and The Independent Petroleum Association of Canada and shall file proof of service thereof with the Board at the opening of the hearing.

5. Alberta Natural shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

- (a) on or before the 15th day of February, 1980, file thirty (30) copies thereof with the Board; and,

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(b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 4 of this Order.

6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 22th day of February, 1980, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon Alberta Natural and each other party who has intervened pursuant to paragraph 4 hereof, a list of which intervenors will be available from the Board on the 20th day of February, 1980.

7. The Rules and Procedures set out in the Appendix to this Order shall govern the conduct of the Hearing.

8. Any interested party may examine a copy of the submission and additional information filed by Alberta Natural at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the following address:

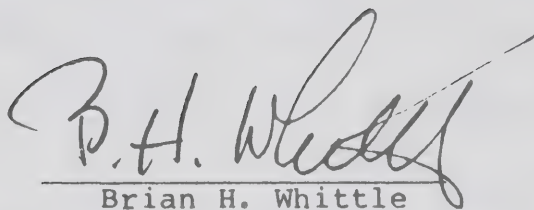
Alberta Natural Gas Company Ltd.
Alberta and Southern Building,
240 Fourth Avenue S.W.,
Calgary, Alberta
T2P 0H5

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DATED at the City of Ottawa, in the Province of Ontario,
this 17th day of January, 1980.

NATIONAL ENERGY BOARD



Brian H. Whittle
Secretary

NATIONAL ENERGY BOARD

NOTICE OF HEARING

IN THE MATTER OF ALBERTA NATURAL GAS COMPANY LTD. TOLLS

WHEREAS the National Energy Board deems it advisable to hold a public hearing to ascertain whether pursuant to Part IV of the National Energy Board Act the tolls charged by Alberta Natural Gas Compny Ltd. (hereinafter referred to as "Alberta Natural") are just and reasonable and that Alberta Natural does not make any unjust discrimination in tolls, service or facilities against any person or locality,

AND WHEREAS Alberta Natural has filed a submission requested by the National Energy Board respecting tolls and tariffs,

TAKE NOTICE that the Board has ordered that a public hearing shall be held commencing on Tuesday, 26 February 1980, at 9:30 a.m. in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, Ottawa, Ontario for the purpose of hearing evidence respecting tariffs and tolls charged by Alberta Natural. Such proceeding will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

AND THE BOARD HAS FURTHER ORDERED THAT:

1. Any respondent or intervenor intending to oppose or intervene in the said hearing shall on or before the 18th day of February, 1980 file with the Secretary of the Board thirty (30)

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copies of a written statement, in either of the two official languages, containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged by Alberta Natural, and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 18th day of February, 1980, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon Alberta Natural, and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, The Canadian Gas Association, The Canadian Petroleum Association, The Independent Petroleum Association of Canada and shall file proof of service thereof with the Board at the opening of the Hearing.

2. Any party who has intervened pursuant to paragraph 1 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 22th day of February, 1980, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon Alberta Natural and each other party who has intervened pursuant to

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paragraph 1 hereof, a list of which intervenors will be available from the Board on the 20th day of February, 1980.

3. Any interested party may examine a copy of the submission filed and additional information filed by Alberta Natural at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the following address:

Alberta Natural Gas Company Ltd.
Alberta and Southern Building,
240 Fourth Avenue S.W.,
Calgary, Alberta
T2P 0H5

DATED at the City of Ottawa, in the Province of Ontario,
this 17th day of January, 1980.

NATIONAL ENERGY BOARD

Brian H. Whittle
Secretary

APPENDIX TO ORDER
NO. RH-1-80

RULES AND PROCEDURES

1. In these Rules, "party" means Alberta Natural Gas Company Ltd., and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-1-80.
2. At the public hearing of the submission by Alberta Natural Gas, the evidence shall be heard in the following order:
 - (i) rate base,
 - (ii) cost of service,
 - (iii) rate of return,
 - (iii) tolls and tariffs and any other matters.
3. The Board shall hear all of the evidence on each of the four items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of Alberta Natural in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same item.
4. Upon the completion of the evidence on all four items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.
5. At the hearing, each party shall file as exhibits two (2) copies of all material filed previously with the Secretary of the Board.
6. Any party who wishes to obtain additional information from Alberta Natural in respect of matters raised in its submission, may request in writing that such information be

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provided and Alberta Natural shall, as soon as possible, make a written response to that request. Wherever possible, in order to expedite the Hearing, these requests and responses should be made before the commencement of the Hearing.

7. Any party receiving an information request from the Board shall respond as soon as possible by filing with the Secretary of the Board five (5) copies of the response, and shall file the information request and its response together as an exhibit at the hearing.

8. Where a party other than Alberta Natural files and serves written direct evidence pursuant to paragraph 6 of Order No. RH-1-80, any other party may request in writing that the party filing such written direct evidence provide additional information respecting the matters dealt with in the direct evidence and the party to whom such a written request is made shall, as soon as possible, make a written response to that request.

9. Both the written request and the response thereto, referred to in paragraphs 6 and 8 of these Rules, shall be filed as exhibits at the hearing.

10. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

11. The order of appearance of parties and sequence of adducing evidence and conducting cross-examination shall be announced by the Board on or before the opening of the hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-RH-1-80

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;

AND IN THE MATTER OF a public hearing
respecting tariffs and tolls charged by
Alberta Natural Gas Company Ltd.
(hereinafter referred to as "Alberta
Natural") File No. 1562-A2-1.

B E F O R E the Board on Thursday, the 24th day of January, 1980.

WHEREAS the National Energy Board deems it advisable to
hold a public hearing to ascertain whether pursuant to Part IV of
the National Energy Board Act the tolls charged by Alberta Natural
are just and reasonable and that Alberta Natural does not make any
unjust discrimination in tolls, service or facilities against any
person or locality;

AND WHEREAS Alberta Natural has filed a submission
requested by the National Energy Board respecting tolls and
tariffs;

AND WHEREAS the Board having found it necessary to
change the date of commencement of the hearing and to amend Order
No. RH-1-80 accordingly;

IT IS ORDERED THAT:

Order No. RH-1-80 be and the same is hereby changed,
altered and varied by:

- deleting the phrase "the 26th day of February 1980" in
paragraph 1 thereof and substituting therefor "the 11th
day of March, 1980";

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- deleting the phrase "the 25th day of January, 1980" in paragraph 3 thereof and substituting therefor "the 1st day of February, 1980";
- deleting the phrase "the 18th day of February, 1980" in paragraph 4 (lines 3 and 16) thereof and substituting therefor "the 3rd day of March, 1980";
- deleting the phrase "the 15th day of February, 1980" in paragraph 5 (a) thereof and substituting therefor "the 29th day of February, 1980";
- deleting the phrase "the 22nd day of February, 1980" in paragraph 6 thereof and substituting therefor "the 7th day of March, 1980";
- deleting the phrase "the 20th day of February 1980" in paragraph 6 thereof and substituting therefor "the 5th day of March, 1980".

The Notice of Hearing attached to and forming part of Order No. RH-1-80 be and the same is hereby changed, altered and varied by:

- deleting the phrase "26 February 1980" in paragraph 3 of the preamble thereof and substituting therefor "11 March 1980";
- deleting the phrase "the 18th day of February, 1980" in paragraph 1 (lines 3 and 15) thereof and substituting therefor "the 3rd day of March, 1980";
- deleting the phrase "the 22nd day of February, 1980" in paragraph 2 (line 4) thereof and substituting therefor "7th day of March, 1980";

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- 3 -

- deleting the phrase "the 20th day of February, 1980" in paragraph 2 (line 8) thereof and substituting therefor "the 5th day of March, 1980".

Dated at the City of Ottawa, in the Province of Ontario,
this 24th day of January, 1980.

NATIONAL ENERGY BOARD



for Brian H. Whittle
Secretary

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TG-1-80

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF a public hearing respecting
tariffs and tolls charged by Alberta Natural Gas
Company Ltd. (hereinafter referred to as "Alberta
Natural").

File No. 1562-A2-1

B E F O R E the Board on Friday, the 9th day of May, 1980.

UPON the National Energy Board (hereinafter called
"the Board") having considered it advisable to conduct a public
hearing, pursuant to Part IV of the National Energy Board Act
to ascertain whether the tariffs and tolls charged by Alberta
Natural are just and reasonable and that Alberta Natural does
not make any unjust discrimination in tolls, service and
facilities against any person or locality;

AND UPON Alberta Natural having filed a submission
requested by the Board respecting its tolls and tariffs;

AND UPON a public hearing having been held in the
City of Ottawa, in the Province of Ontario, which commenced on
the 11th day of March, 1980, and at which the Board heard the
evidence and submissions of Alberta Natural and other
interested parties;

AND UPON the Board, after having considered such
evidence and submissions, being satisfied that the tolls to be
charged by Alberta Natural, effective the 1st day of July,
1980, in accordance with this Order and the Board's Reasons for
Decision dated May, 1980, in the Matter of a Public Hearing
under Part IV of the National Energy Board Act respecting

- 2 -

tariffs and tolls charged by Alberta Natural Gas Company Ltd. (hereinafter called the "May 1980 Reasons for Decision") are just and reasonable;

IT IS DECLARED THAT:

1. Pursuant to sections 11 and 50 of the National Energy Board Act, the Board's method of regulating the tolls and tariffs of Alberta Natural shall be as set forth in Schedule A attached to and forming part of this Order.

IT IS ORDERED THAT:

2. Alberta Natural shall, effective the 1st day of July, 1980, charge, in respect of the natural gas transmitted by it through its pipeline in each month during the term of this Order, those tolls for each such month as are determined in accordance with this Order and the May 1980 Reasons for Decision.

3. For the purposes of determining the tolls to be charged in respect of the natural gas transmitted by it through its pipeline in each month during the term of this Order, Alberta Natural shall:

- (a) calculate its cost of service for each such month in accordance with the requirements specified in Schedule B attached to and forming part of this Order and in conformity with the May 1980 Reasons for Decision, and

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- 3 -

(b) allocate its cost of service in the following manner:

- (i) the cost of service applicable to the East Kootenay metering facilities and the sales taps in Southeastern British Columbia shall be allocated and charged to Alberta and Southern and to Westcoast in accordance with the existing arrangements with those shippers, and
- (ii) the balance of the cost of service for each month will be allocated to Alberta and Southern and to Westcoast by the fraction whose numerator is the respective shipper's Daily Contract Quantity and whose denominator is the sum of the Daily Contract Quantities of both shippers.

4. Alberta Natural shall not include any income taxes in its cost-of-service toll until such time as the amount of accumulated income taxes calculated on a flow-through basis from the 1st day of July, 1980, equals the balance of the deferred taxes which have been billed with respect to the pipeline operations up to 30 June 1980.

5. During the term of this Order, Alberta Natural shall not charge in respect of the natural gas transmitted by it

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through its pipeline any tolls other than those tolls determined in accordance with this Order and the May 1980 Reasons for Decision.

AND IT IS FURTHER ORDERED THAT:

6. The allocation procedure used to allocate Administrative and General Expenses common to Alberta and Southern Gas Co. Ltd. and Alberta Natural between Alberta and Southern Gas Co. Ltd. and to Alberta Natural's pipeline activities and non-jurisdictional activities, be and is hereby approved.

7. The allocation procedure used to allocate Administrative and General Expenses incurred by Alberta Natural on its own account between its pipeline activities and its non-jurisdictional activities, be and is hereby approved.

8. The method of depreciation used by Alberta Natural for the East Kootenay metering facilities be and is hereby approved.

AND IT IS FURTHER ORDERED THAT:

9. Alberta Natural shall, effective the 1st day of July, 1980, adopt the flow-through method of accounting for income taxes, for both accounting purposes and cost of service tolls purposes.

10. Alberta Natural shall, effective the 1st day of July, 1980 record its revenue and expenses for its pipeline operations using the accrual method of accounting.

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11. Alberta Natural shall, effective the 1st day of July, 1980, utilize a Rate of Return on Rate Base of 11.5 percent.

AND IT IS FURTHER ORDERED THAT:

12. The approved budgets for Operating and Maintenance Expense, excluding any cost of gas used in operations, of Alberta Natural for the period commencing on the 1st day of July, 1980, and ending on the 31st day of December, 1980, shall be \$5,141,421, consisting of \$865,188 for wages, salaries and benefits, and \$4,276,233 for other Operating and Maintenance Expenses, less the amounts actually incurred by the Company with respect to these items in the period from 1 January 1980 to 30 June 1980.

13. Alberta Natural shall not include in the tolls to be charged any amount on account of:

- (a) Wages, salaries and benefits included in Operating and Maintenance Expenses, and
- (b) Operating and Maintenance Expenses other than wages, salaries and benefits,

which are in excess of the budgets as approved by the Board.

14. Where Alberta Natural incurs Operating and Maintenance Expenses in excess of the approved budget, Alberta Natural shall include those excess expenses in Account 179, Other Deferred Debits, together with carrying charges on the opening balance of the account at 1/12 of the allowed Rate of

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Return on Rate Base specified in paragraph 11 hereof. The disposition of any balance in Account 179 will be subject to approval by the Board.

AND IT IS FURTHER ORDERED THAT:

15. Alberta Natural shall forthwith file with the Board and serve upon all parties to the public hearing respecting tariffs and tolls amendments to its tariff conforming with this Order and the May 1980 Reasons for Decision.

16. Notwithstanding the filing of the said amendments to its tariff by Alberta Natural, the said amendments shall remain suspended and be of no effect until the first day of July, 1980.

17. Those provisions of Alberta Natural's tariffs, tolls and rates, or any portion thereof, that are contrary to any order of the Board, including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 30th day of June, 1980.

AND IT IS FURTHER ORDERED THAT:

18. Alberta Natural shall, within such times as are prescribed by the Board and in such form and detail as may be specified by the Board, file with the Board such information as may be required by this Order and the May 1980 Reasons for Decision.



for Brian H. Whittle,
Secretary

SCHEDULE "A"

THE NATIONAL ENERGY BOARD'S METHOD FOR REGULATING THE TOLLS AND TARIFFS OF ALBERTA NATURAL GAS COMPANY LTD.

The National Energy Board's method for regulating the tolls and tariffs of Alberta Natural Gas Company Ltd. shall be as follows:

Audit

1. The Board will audit Alberta Natural's calculations of rate base, cost of service, and tolls at least once each year. The Board's audit reports will be public documents available for examination by interested parties.

Interested Parties

2. Westcoast Transmission Company Limited, Alberta and Southern Gas Company Ltd., The Canadian Petroleum Association, the Alberta Petroleum Marketing Commission, and any person who notifies Alberta Natural and the Board that he wishes to be registered as an interested person in Alberta Natural's tolls and tariff, and is accepted by the Board as such, will be recognized as interested parties in all matters related to tolls subsequent to the hearing called by the Board's Orders No. RH-1-80 and No. AO-1-RH-1-80.

Rate Base

3. Beginning with the first month the approved method is applicable and as of the first of each succeeding month, a

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rate base shall be calculated by the Company using the principles set out by the Board in these Reasons for Decision and in Board Order No. TG-1-80. This shall include the rate base at 30 September 1979 as determined by the Board in accordance with these Reasons for Decision plus subsequent capital expenditures on construction approved by the Board under Part III of the N.E.B. Act which have been recorded in the plant accounts set out in Schedule "IV" to the N.E.B. Gas Pipe Line Uniform Accounting Regulations, and appropriate adjustments to other rate base items including accumulated depreciation, contributions in aid of construction, and the working capital allowance. The balance of deferred income taxes relating to the Company's pipeline operations calculated on the basis approved by the Board are to be deducted from rate base. The rate base for toll purposes is to be the opening balance for the month.

4. Any new type of item proposed for inclusion in the subsequent monthly rate base determinations will require prior Board approval (and for items deemed by the Board to be significant will be subject to review by interested parties).
5. Alberta Natural's adjustment to its rate base from 30 September 1979 to the start of new tolls arising from the Decision in these proceedings is to be filed with the Board on or before 31 August 1980 for the approval of the Board.

Cost of Service

6. The following represents costs that the Board is prepared to allow to be included in the cost of service automatically, provided the principles or methods of computation have been previously approved by the Board, or where the costs are largely outside the control of the company:
- operating and maintenance expenses up to the budget amounts previously approved by the Board for
 - (a) salaries, wages and benefits; and
 - (b) other expenses
 - municipal taxes in the absence of unusual circumstances;
 - depreciation;
 - amortization (after receiving Board authorization);
 - income taxes, employing the "flow-through" method prescribed by the Board, and using the method of calculation set out in Chapter 6 of the Board's Reasons for Decision, all subject to the limitations contained in the same chapter; and
 - return on rate base as determined by the Board in Chapter 7 of the Board's Reasons for Decision.
7. In the event that Alberta Natural's operating and maintenance expenses for salaries, wages, and benefits, or other operating and maintenance expenses, exceed in any

year the budget approved by the Board, such over-expenditures are to be charged to a deferral account set up for that purpose. The amounts are to be charged to Account 179, Other Deferred Debits, of the NEB Gas Pipe Line Uniform Accounting Regulations and shall include a monthly carrying charge on the opening balance of one-twelfth the allowed rate of return on rate base.

8. The following represent items for which interested parties will have the right to request a review and which require the approval of the Board:

- the annual budget of operating and maintenance expense;
- disposition of deferred costs arising from overruns of salaries, wages and benefits in operating and maintenance expenses and of other operating and maintenance expenses
- changes in the bases of allocating Alberta Natural's administrative and general expenses to its pipeline operations and changes in any other bases of allocating any other costs to Alberta Natural's pipeline operations.

9. Unless it otherwise advises, it is the intention of the Board to hold a public hearing on any application to change the principles or methods of determining costs in item 6 above.

10. Notwithstanding any of the foregoing, Alberta Natural may automatically include in the cost of service any unusual costs resulting from emergency actions, e.g., repairing a line break. The Board should be notified immediately of such costs and will rule whether the amounts recovered from the shippers in respect of such costs should be recorded as revenue or deferred pending an investigation by the Board.
11. In respect of any major unusual costs not provided for in item 10 above, Alberta Natural is required to seek a prior ruling of the Board as to whether such costs can be automatically included in the cost of service or should be deferred.
12. Where Alberta Natural or interested parties request a review of certain costs or have complaints, apart from the matters identified in item 6 above, the Board intends to deal with them by means of written submission unless it otherwise advises.

Information Requirements

13. Each month, Alberta Natural shall file with the Board and, if requested by any interested party, serve upon any such party, information in a form satisfactory to the Board on:
 - (1) the derivation of the rate base;
 - (2) components of the cost of service; and
 - (3) allocation of the cost of service to

- (a) Westcoast and
- (b) Alberta and Southern.

Written comments should be provided to give insight into significant matters.

14. On or before 30 September of each year, Alberta Natural shall submit to the Board and serve upon interested parties its detailed budgets for the ensuing calendar year for salaries, wages and benefits included in operating and maintenance expenses and also for other operating and maintenance expenses. Such budgets shall, as a minimum requirement, contain information in as much detail as Alberta Natural's "Submission in respect of its tolls and tariffs" filed as Exhibit 2 as supplemented by Exhibit 7 during the public hearing. Interested parties, if they wish to do so, may make written representations to the Board on or before 31 October with respect to items included in the budget. Such written representations shall be served concurrently upon Alberta Natural, who may reply to them on or before 30 November of the same year. Subsequently, the Board will rule on the authorized budgets for operating and maintenance expenses and advise the interested parties.

Clarification of the Method for Regulating the Tolls

15. Where Alberta Natural or any interested party requires clarification of the method of regulation in relation to any situation arising in any month during the term of Order No. TG-1-80, a formal request should be made to the Board with a copy being served on interested parties.

SCHEDULE "B"

ALBERTA NATURAL GAS COMPANY LTD.
DETERMINATION OF MONTHLY COST OF SERVICE
EFFECTIVE 1 JULY 1980

1. Calculation of Monthly Rate Base

- (a) The monthly rate base for toll purposes shall be calculated as of the first of each month, and shall consist of the following components:

Gas Plant in Service
Accumulated Depreciation (credit)
Contributions in Aid of Construction
(credit)
Cash Working Capital
Materials and Supplies
Prepayments
Deferred Income Taxes (credit)

- (b) Alberta Natural shall on or before 31 August 1980 file for the approval of the Board, an adjusted rate base as at 1 July 1980. Such adjusted rate base shall be the 30 September 1979 rate base which was approved in the May 1980 Reasons for Decision with subsequent adjustments made in accordance with the principles set out in the May 1980 Reasons for Decision.
- (c) The rate base for each month during the term of this order shall be determined in accordance with the following methods or criteria:
- (i) Unless otherwise indicated or directed by the Board, dollar amounts used for rate base calculations shall be those recorded in the Company's accounts kept in accordance with the NEB Gas Pipe Line Uniform Accounting Regulations.

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- (ii) The rate base each month for toll purposes shall be the opening balance for that month.
- (iii) Gas Plant in Service shall be adjusted to include capital expenditures on construction approved by the Board under Part III of the NEB Act and for which leave to open, if required, has been granted.
- (iv) Accumulated Depreciation shall be adjusted for depreciation expense included in the cost of service up to the end of the previous month.
- (v) Contributions in Aid of Construction
Adjustments shall reflect contributions made for the alteration or replacement of existing assets at the request of either government agencies or the shippers.
- (vi) Cash Working Capital
Cash Working Capital shall be equal to the Operating and Maintenance Expenses (excluding the cost of gas used in operations) included in the cost of service for the previous month.
- (vii) Materials and Supplies
Additions to Materials and Supplies shall represent costs which are prudent and proper, and useful to the Company.

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(viii) Prepayments

Actual Prepayments shall be included in rate base when incurred and shall be reduced by the amounts amortized to the cost of service up to the end of the previous month.

(ix) Deferred Income Taxes

The amount to be deducted from rate base for Deferred Income Taxes shall be the balance of deferred income taxes as at the beginning of the month.

- (x) Any new type of item proposed for inclusion in the rate base will require prior Board approval.

2. Calculation of Monthly Cost of Service

- (a) The monthly cost of service for toll purposes shall consist of the following components:

Operating and Maintenance Expenses
Depreciation
Amortization
Municipal and Other Taxes
Income Taxes
Return on Rate Base
Other Cost of Service Adjustments

- (b) The cost of service for each month during the term of this Order shall be calculated in accordance with the following methods or criteria:

- (i) Unless otherwise indicated or directed by the Board, dollar amounts used for cost of service calculations shall be those recorded in the

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Company's accounts kept in accordance with the
NEB Gas Pipe Line Uniform Accounting Regulations.

(ii) Operating and Maintenance Expenses

Actual Operating and Maintenance Expenses for
salaries, wages and benefits shall be included up
to the budget as approved by the Board for
salaries, wages and benefits. Actual Operating
and Maintenance Expenses for other items shall be
included up to the budget for other items as
approved by the Board.

(iii) Depreciation

Depreciation shall be calculated at those rates
previously approved by the Board.

(iv) Amortization

Amortization shall include only those amounts
which have been authorized by the Board.

(v) Municipal and Other Taxes

Municipal and Other Taxes shall be the actual
amounts paid, in the absence of unusual
circumstances.

(vi) Income Taxes

Income Taxes shall be the amount calculated by:

- (1) multiplying the Rate Base by the ratio of
common equity to total capitalization and by

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the cost rate of common equity, as determined by the capital structure used by the Board in determining the rate of return on rate base in these proceedings;

- (2) adding and deducting timing differences attributable solely to transmission operations to the product determined above; and
- (3) multiplying the resulting amount by a tax factor determined by the formula

$$\frac{\text{tax rate}}{100 - \text{tax rate.}}$$

No income taxes are to be included in the cost of service until the accumulated taxes calculated using the above method are equal to the balance of the deferred income taxes which have been collected up to 30 June 1980.

(viii) Return on Rate Base

Return on Rate Base shall be the amount calculated by multiplying 1/12 of the allowed Rate of Return on Rate Base by the monthly rate base for toll purposes.

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(ix) Other Cost of Service Adjustments

Other Cost of Service Adjustments shall include:

Board dispositions allowing deferred costs
(including carrying charges) arising from
overruns of Operating and Maintenance Expenses;
and other costs which have been approved by the
Board.

